

**Before the
Federal Communications Commission
Washington, D.C. 20554**

In the Matter of)	
)	
Connect America Fund)	WC Docket No. 10-90
)	
A National Broadband Plan for Our Future)	GN Docket No. 09-51
)	
Establishing Just and Reasonable Rates for Local Exchange Carriers)	WC Docket No. 07-135
)	
High-Cost Universal Service Support)	WC Docket No. 05-337
)	
Developing a Unified Intercarrier Compensation Regime)	CC Docket NO. 01-92
)	
Federal-State Joint Board on Universal Service)	CC Docket No. 96-45
)	
Lifeline and Link-Up)	WC Docket No. 03-109

NOTICE OF INQUIRY AND NOTICE OF PROPOSED RULEMAKING

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Comment Date on Section XV: [30 days after date of publication in the Federal Register]

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Comment Date of State Members of the Federal-State Joint Board on Universal Service: [59 days after date of publication in the federal Register]

Reply Comment Date on Remaining Sections: [80 days after date of publication in the Federal Register]

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Summary

Warinner, Gesinger & Associates, LLC (“WGA”) provides these comments in response to questions and issues contained in the FCC’s Notice of Proposed Rulemaking regarding proposed reforms to rules prescribed for intercarrier compensation and universal service programs and support mechanisms. There is no doubt that the proceedings listed within the NPRM are significant to the operations of small rural telephone companies and are liable to impact the ability of these companies to provide telecommunications and broadband services in the future.

One of the near-term objectives of the FCC is to address intercarrier compensation (ICC) issues impacting additional funding for USF programs and deal with Interconnected VoIP traffic, call signaling and phantom traffic, access stimulation, and non-payment issues. WGA filed comments on these issues on April 1, 2011 and urges the Commission to address these issues promptly to restore some greatly needed funding for USF programs. Longer term objectives for ICC encompass unifying state and interstate access rates and working with the State commissions to address revenue shortfalls for the possible inclusion in USF programs and support mechanisms. Failure to address these issues will lead to continued rate arbitrage, misreporting and non-reporting of traffic (phantom traffic), and disputes between carriers for payment of telecommunication services.

The FCC’s near-term and longer-term proposals to address reforms for USF programs and support mechanisms are similar to the proposals contained in the previous NOI and NPRM released by the Commission on April 21, 2010. WGA previously filed comments on those

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proposals on July 1, 2010. The Commission continues to propose USF reforms requiring the replacement of existing cost based support mechanisms and USF distribution systems with investment and expense caps, forward-looking cost models, and reverse auctions. WGA continues to oppose the replacement of existing cost based support mechanisms and USF distribution systems with forward-looking cost models and reverse auctions. WGA recognizes the possibility that interim fund caps may need to be implemented to maintain reasonable growth in USF disbursements until such time as additional USF funding can be realized through an expanded revenue base (voice and broadband) associated with supported services upon transition to the Connect America Fund (CAF) targeted for broadband services.

WGA supports the RLEC Plan proposed in the Comments of the Rural Associations calling for a five-step process to provide near-term and longer-term reforms as follows:

1. Adopt near-term ICC reform measures as discussed in the Rural Associations' comments filed on April 1, 2011,
2. Effective January 1, 2012, adopt two reasonable near-term prospective changes to USF rules to address concerns regarding recovery of excess capital and operational expenditures through existing USF and ICC mechanisms,
3. Begin longer-term unification of ICC rates in cooperation with the states,

4. Implement an evolve RLEC-specific CAF program as part of longer-term USF reform, and
5. Monitor and periodically recalibrate these reformed ICC and USF mechanisms as needed in a manner that complies with the USF goals and objectives outlined in the Act.

I. BACKGROUND

The Federal Communications Commission (“FCC”) Notice of Proposed Rulemaking (“NPRM”) and Further Notice of Proposed Rulemaking released February 9, 2011 addresses the “great infrastructure challenge of our time” in bringing robust, affordable broadband to all Americans.¹ Building on recommendations from the recent record of the National Broadband Plan (“NBP”),² the FCC proposes comprehensive reform to the current Universal Service Fund (“USF”) and Intercarrier Compensation (“ICC”) system. The FCC proposes to transition USF to a broadband focused Connect America Fund (“CAF”) and to replace the current ICC system that is based on per-minute compensation.

In order to meet this challenge, the FCC will be guided by the following four principles and seeks comments on these principles for reform while recognizing that there are several paths to accomplish this goal³:

- Modernize the Universal Service Fund and Intercarrier Compensation

Refocus USF and ICC to make affordable broadband available and accelerate transition from circuit-switched to IP networks.

- Ensure Fiscal Responsibility

Control the size of the USF as it transitions to support broadband, including reducing waste and inefficiency.

¹ Refer to ¶ 1 of the FCC’s NPRM published March 2, 2011

² GN Docket Nos. 09-51, 09-47, 09-137 and WC Docket Nos. 10-90 and 05-337

³ Refer to ¶ 10 of the FCC’s NPRM published March 2, 2011

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- **Require Accountability**

Require accountability from companies receiving support to ensure public investments are used wisely to deliver intended results.

- **Transition to Market-Driven Policies**

Transition to market-driven and incentive-based policies that encourage technologies and services that maximize the value of scarce program resources.

The FCC proposes several specific near-term steps designed to accelerate broadband investment in unserved areas and set USF and ICC “on a path that is consistent with the principles”⁴ proposed.

Warinner, Gesinger and Associates, LLC (“WGA”) is a consulting firm that provides auditing and regulatory consulting services to rural telecommunications carriers. WGA’s clients are comprised of rural Local Exchange Carriers (“LECs”) operating in multiple states within the continental United States as well as Alaska and the Virgin Islands. These companies operate as the Carrier of Last Resort (COLR) in study areas with as few as 340 access lines and as many as 68,000 access lines. The employees, managers and owners of these companies are active in the communities they serve and take pride in providing quality services to their customers and neighbors. Moreover, they offer employment opportunities to residents in rural areas and strive to meet the communication and data needs of their communities.

⁴ Refer to ¶ 14 of the NPRM

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Under the FCC's existing rules, these companies have developed business plans for requested services, obtained or applied for loans, and implemented business plans requiring infrastructure investments to satisfy customer service demands. These companies have invested in advanced multi-purpose networks that provide both voice and broadband services similar to those available in urban locations. These companies are concerned that the FCC's NPRM contains certain proposals that appear to ignore the fact that telecommunications carriers, especially Rate-of-Return ("ROR") LECs, who formulated economic business plans to implement advanced telecommunications networks based on the FCC's rules in effect at the time, will no longer be afforded an opportunity to recover the costs of those networks and related services.

Although the FCC's NPRM offers a potential alternative approach for small ROR carriers (whereby the FCC would continue to provide ongoing support based on "reasonable actual investment"⁵), it would appear that the alternative approach still contains substantial modifications to current procedures including the capping and shifting of interstate common line support to an incentive regulation framework that would establish support amounts using forward looking cost concepts for an efficient carrier and implementing a more rigorous process to examine whether investments are used and useful. The FCC previously presented a broad brush approach to establishing a forward looking cost model in its previous request for NBP comments and that cost model was determined to be inaccurate both in methodology and economic assumptions for rural telephone companies operating in vastly different geographic

⁵ Refer to ¶ 401 of the FCC's NPRM published March 2, 2011
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regions of the country.⁶ Additionally, the forward looking cost model referenced by the Commission was deemed to be a proprietary model whereby the detail model assumptions and calculations were not made available for review by the rural telephone companies that the model would impact.⁷ WGA does not and will not support the use of a forward looking cost model that has not been made available for review at the detail cost input level.

The FCC's NPRM requests comments on many issues, for both the near-term (Stage 1) and for final resolution of the complex issues identified by the Commission in the longer term (Stage 2) of its reform proposals. WGA organized its responses to the NPRM as they relate to the FCC's four principles: (1) to modernize USF and ICC support for adaptation to broadband services; (2) to ensure fiscal responsibility; (3) to ensure accountability; and, (4) to promote market-driven policies.

Within these comments, WGA also provides financial data related to the existing USF support that is currently in effect for our rural telecommunications clients represented in these comments and the impact that the FCC's proposed changes will have on the ability to maintain their advanced networks and services in future periods.

II. MODERNIZE USF AND ICC FOR BROADBAND

Section 254 of the Telecommunications Act of 1996 ("Act") states that universal service

⁶ See, e.g., Joint Comments of the National Exchange Carriers Association, Inc., et al., filed in WC Docket 10-90, GN Docket 09-51, and WC Docket 05-337 on July 12, 2010 at 7, 52-59.

⁷ See *id.*, at 53, *Fn 130*.

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is “an evolving level of telecommunications services”...“supported by Federal universal service support mechanisms” to the extent “such telecommunications services are being deployed in public telecommunications networks by telecommunications carriers”.⁸ “There should be specific, predictable and **sufficient Federal and State mechanisms to preserve and advance universal service**”.⁹ (Emphasis added.)

The FCC’s NPRM provides a blueprint to transform the existing high-cost (USF) program into a new broadband-focused CAF. The FCC identified the following four priorities for the federal high-cost program: (1) preserve voice services, (2) ensure universal deployment of modern networks capable of supporting broadband applications as well as voice, (3) ensure that rates for broadband service are reasonably comparable in all regions of the nation; and (4) limit the contribution burden on households.

The FCC identified two stages to achieve USF reform. The first stage proposes near-term reforms to the existing USF support mechanisms and the establishment of the Connect America Fund (“CAF”) for transitioning broadband support. The second stage proposes longer-term comprehensive reforms to transition intercarrier compensation and USF to all-IP networks.

WGA provides the following comments and financial information which relate to the first stage of immediate or near-term reforms proposed by the Commission.

⁸ Refer to Section 254 of the Act, Universal Service Principles, paragraph (b)(7)(1) and (C)

⁹ Refer to Section 254 of the Act, Universal Service Principles, paragraph (b)(5)

A. Near-Term Reforms and Establishment of Connect America Fund (“CAF”)

The near-term reforms proposed by the FCC target parts of all three USF programs (LSS, HCLS and ICLS). These reforms target the elimination of corporate operations expenses from recovery through all USF programs; reduce excess cost benchmarks within the USF program for HCLS; eliminate LSS in its entirety by the year 2014; and limit total USF support to a maximum of \$3,000 per line annually. WGA performed an analysis of the revenue impacts from each of the near-term USF reforms proposed by the FCC and presents a summary of the reductions in annual USF support on Exhibit 1 attached to these comments. Exhibit 2 presents an analysis of the estimated USF impacts reflected on Exhibit 1 in graph format by USF program for the years 2012 through 2015. Exhibit 3 provides a graph of the estimated monthly reductions in revenue per line per month for the USF reforms presented on Exhibit 1.

An analysis of each of the near-term USF reforms proposed by the FCC in this proceeding is presented below.

1. Changes to the High Cost Loop Support (“HCLS”) calculation

The FCC proposes, *beginning January 1, 2012*¹⁰, to revise that portion of the HCLS algorithm, for calculating the recovery of loop cost, to fifty-five percent (55%) of the study area average unseparated cost per working loop (“SACPL”) in excess of 115 percent of the national average cost per loop (“NACPL”) but not greater than 150 percent of the NACPL as calculated by §36.622(b). Also *beginning January 1, 2012*, the FCC proposes to revise that portion of the HCLS algorithm, for calculating the recovery of loop cost to sixty-five percent (65%) of the

¹⁰ Refer to Appendix A of the NPRM related to revisions to §36.631, Expense adjustment

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study area average unseparated cost per working loop (“SACPL”) in excess of 150 percent of the NACPL as calculated by §36.622(b).

WGA does not believe that the above proposed changes to the HCLS algorithm will impact total current distributions from the HCLS fund. Instead, the above proposed changes in cost support benchmarks will only change the distribution of total HCLS funding between HCLS recipients. It is WGA’s understanding that distributions from the High Cost Loop Support (“HCLS”) fund are computed based on the difference between a carrier’s average cost per loop and the nationwide average cost per loop (“NACPL”) calculated by NECA using costs from data submissions filed by all carriers on or before July 31 of each year. The NACPL is adjusted upward or downward based on the number necessary to equalize the total unseparated loop costs of all qualifying carriers with the amount of high cost support funds available for distribution for the respective period. In other words, the NACPL is adjusted annually to arrive at the appropriate amount of HCLS disbursements based on the costs of qualifying carriers using the cost support benchmarks of 65% applied to carrier unseparated loop costs between 115% and 150% of the NACPL and 75% applied to carrier unseparated loop costs in excess of 150% of the NACPL. The total amount of HCLS funds available for distribution is not contingent upon the cost support benchmarks used in the HCLS algorithm, rather the amount of annual HCLS support is established by USAC independently of the algorithm and the algorithm is used to determine the distribution of HCLS funds to qualifying carriers. If NECA were to adjust the cost benchmarks for determining HCLS for qualifying carriers in the HCLS algorithm, it would not change the total amount of HCLS to be distributed to the qualifying carriers; it would only change the amount of support distributed between the qualifying carriers. To effect a reduction

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in total HCLS fund disbursements, the FCC must compute the NACPL for use in the HCLS algorithm independent of the HCLS algorithm.

WGA provides Exhibit 1 to reflect the revenue impact from the above proposed change in HCLS recovery on seven companies using 2009 cost data for disbursements in the year 2011 assuming no changes to the 2009 NACPL as a result of the above cost support benchmark changes. Exhibit 1 also provides the revenue impact from the above proposed change in HCLS recovery for the seven companies based on preliminary or estimated cost data for the years 2010 through 2013 for disbursements in 2012 through 2015 including estimated changes to the NACPL each year as a result of the cost support benchmark change. The NACPL amounts used for the years 2010 through 2013 were based on the forecasted amounts provided by the National Exchange Carrier Association (“NECA”) in June of 2010.

WGA analyzed the financial impact of the proposed change in the HCLS cost support benchmark ratios for seven LECs who opted to participate in these comments and provides the results of its analysis on Exhibit 1. For the seven LECs analyzed by WGA, the highest estimated annual reduction in HCLS support per line amounted to \$101.38 for the year 2012, \$129.16 for the year 2013, \$142.76 for the year 2014 and \$134.27 for the year 2015. The average estimated annual reduction in HCLS support per line for all companies amounted to \$25.21 for the year 2012, \$24.47 for the year 2013, \$27.43 for the year 2014 and \$30.88 for the year 2015.

2. Limit Total Support per Line to \$3,000

The FCC proposes, subject to specified exceptions, *beginning January 1, 2012*, that each study area in the continental United States shall be limited to \$3,000 per-line annually in universal service support.¹¹ In order to limit support to \$3,000 for affected carriers, the safety-net additive, high-cost loop support, local switching support, safety valve support, forward-looking support, interstate access support, and interstate common line support shall be reduced in proportion to the relative amounts of each support category to total support the study area would have received without such limitation. Line counts used for this calculation shall be the most recent reported pursuant to Section 36.611(h).

Of the seven companies analyzed by WGA for these comments on USF reform, none had annual total support in excess of \$3,000 per line. Before recognition of the financial impacts of proposed FCC reforms to USF support, the highest annual support received per line amounted to \$1,593.48 in 2009 and \$1,656.81 in 2010. For any company affected by this proposed change in USF distributions, WGA concurs with the comments presented by the Rural Associations regarding *A Cap on Total, Annual Per-line High-Cost USF Support Should Not Be Imposed on RLECs Without Considering Individual Circumstances.*¹²

¹¹ Refer to Appendix A of the NPRM related to the annual per-line limit on universal service support §54.302

¹² See, Comments of the National Exchange Carrier Association, Inc.; National Telecommunications Cooperative Association; Organization for the Promotion and Advancement of Small Telecommunications Companies; Western Telecommunications Alliance; Eastern Rural Telecom Association; and the Rural Alliance (collectively, the “Rural Associations”), Submitted April 18, 2011, In the Matter of Connect America Fund, WC Docket No 10-90; A National Broadband Plan for Our Future, GN Docket No. 09-51; Establishing Just and Reasonable Rates for Local Exchange Carriers, WC Docket No. 07-135; High-Cost Universal Service Support, WC Docket No. 05-337; and Developing an Unified Intercarrier Compensation Regime, CC Docket No. 01-92, at Pg. 45. Warinner, Gesinger & Associates, LLC Comments CC Docket Nos. 01-92, 96-45, WC Docket Nos. 10-90, 07-135, 05,337, 03-109, GN Docket No. 09-51, CC Docket Nos. 01-92, 96-45 April 18, 2011

3. Local Switching Support Changes¹³

Subject to specified exceptions *for calendar year 2012* payments, LSS shall be 67% of the amount calculated per §54.301, and *for the calendar year 2013* payments, LSS shall be 33% of the amount calculated. ***Beginning January 1, 2014***, no carrier shall receive LSS, subject to specified exceptions.

By eliminating LSS support, the Commission will be shifting the burden of recovery for approximately twenty-five to fifty percent of each LEC's local switching costs to either the interstate local switching MOU charge (if the interstate Dial Equipment Weighting ("DEM") additive is retained) or local service charge or some other state mandated cost recovery mechanism (if the interstate Dial Equipment Weighting ("DEM") additive is eliminated).

WGA analyzed the financial impact of the proposed phase out of LSS for seven LECs who opted to participate in these comments and presents the results of its analysis on Exhibit 1. For the seven LECs analyzed by WGA, the highest estimated annual reduction in LSS support per line amounted to \$55.01 for the year 2012, \$100.85 for the year 2013, \$133.27 for the year 2014 and \$126.10 for the year 2015. The average estimated annual reduction in LSS support per line for all companies amounted to \$17.81 for the year 2012, \$31.14 for the year 2013, \$42.15 for the year 2014 and \$40.21 for the year 2015.

¹³ Refer to Appendix A of the NPRM related to local switching support § 54.301
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4. High Cost Loop Changes¹⁴

The FCC proposes that for purposes of calculating universal service support payments *in the calendar year 2012*, total corporate operations expense shall be limited to the lesser of §36.621(a)(4)(i) or (ii) multiplied by 67%. *In the calendar year 2013*, total corporate operations expense shall be limited to the lesser of §36.621(a)(4)(i) or (ii) multiplied by 33%. *Beginning January 1, 2014*, corporate operations expense shall no longer be eligible for purposes of calculating high cost loop support payments.

WGA opposes the phase out and elimination of corporate operations expense from the HCLS support calculation. Corporate operation expenses are an essential component of the cost of providing supported services. If corporate operations expenses are eliminated from the HCLS calculation, the expenses must be recovered from local rates which will affect compliance issues with Section 254(b)(1) and 254(b)(3) of the Act. Furthermore, the FCC has provided no real justification for the elimination of corporate expenses from the HCLS calculation other than its intent to reduce the size of the USF fund.

WGA analyzed the financial impact of the proposed phase out of corporate operations expense from HCLS disbursements for seven LECs who opted to participate in these comments and presents the results of its analysis on Exhibit 1. For the seven LECs analyzed by WGA, the average estimated annual reduction in HCLS support per line for all companies amounted to

¹⁴ Refer to Appendix A of the NPRM related to study area total unseparated loop cost § 36.621.
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\$3.69 for the year 2012, \$31.80 for the year 2013, \$30.05 for the year 2014 and \$39.54 for the year 2015.

5. *Interstate Common Line Support Changes*¹⁵

For purposes of calculating ICLS *for calendar year 2012*, corporate operations expense allocated to the Common Line Revenue Requirement pursuant to §69.409 shall be reduced by multiplying the allocated corporate operations expense by 67%. For calendar year 2013, corporate operations expense shall be reduced by multiplying the allocated corporate operations expense by 33%. ***Beginning January 1, 2014***, corporate operations expense shall no longer be eligible for purposes of calculating ICLS.

WGA opposes the phase out and elimination of corporate operations expense from the ICLS support calculation. Corporate operation expenses are an essential component of the cost of providing supported services. If corporate operations expenses are eliminated from the ICLS calculation, the expenses must be recovered from local rates which will affect compliance issues with Section 254(b)(1) and 254(b)(3) of the Act and will result in the subsidization of interstate services through local rates. Furthermore, the FCC has provided no real justification for the elimination of corporate expenses from the ICLS calculation other than its intent to reduce the size of the USF fund.

WGA analyzed the financial impact of the proposed phase out of corporate operations

¹⁵ Refer to Appendix A of the NPRM related to calculation of ICLS § 54.901
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expenses from the ICLS fund for seven LECs who opted to participate in these comments and presents the results of its analysis on Exhibit 1. For the seven LECs analyzed by WGA, the highest estimated annual reduction in ICLS support per line amounted to \$59.68 for the year 2012, \$102.27 for the year 2013, \$149.65 for the year 2014 and \$146.71 for the year 2015. The average estimated annual reduction in ICLS support per line for all companies amounted to \$21.01 for the year 2012, \$44.20 for the year 2013, \$68.07 for the year 2014 and \$70.14 for the year 2015.

6. Impact of the Elimination of Corporate Operations Expense from USF Support

The FCC's NPRM stated that corporate operations expense and general and administrative expenses are sometimes referred to as "overhead expenses".¹⁶ The FCC further states that holding companies with multiple operating companies in different study areas allocate their overhead costs to their study areas which creates incentives for such holding companies to arbitrarily allocate overhead to avoid the corporate operations expense limitation for HCLS. Therefore, the FCC proposes to eliminate the eligibility for recovery of corporate operations expense through HCLS, LSS and ICLS and focus universal service funds directly on investments for network build-outs, maintenance, and upgrades.¹⁷

The Act states: "A carrier that receives support shall use that support only for the provision, maintenance, and upgrading of facilities and services for which the support is

¹⁶ Refer to ¶ 195 of the NPRM released March 2, 2011

¹⁷ Refer to paragraphs 197 and 198 in the FCC's NPRM released March 2, 2011

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intended.”¹⁸ The “provision, maintenance and upgrading of facilities and services” require company personnel to plan, monitor, research technology and otherwise perform executive decisions and accounting functions and procedures to ensure compliance with rules and regulations for the provision of supported services and customer satisfaction with said services. It is inconceivable that the FCC would propose to prohibit a company from recovering the cost of its corporate expenses from each of its revenue sources and there is simply no precedent established by any regulatory authority to summarily remove corporate expenses from a regulated utility’s cost of providing regulated services.

WGA does not support the FCC’s proposal to eliminate corporate operations expenses from USF support because it would result in the subsidization of USF supported services through local rates or by state support mechanisms and may lead to issues of non-compliance with Section 254(b)(1) and 254(b)(3) of the Act. Corporate expenses are a necessary cost associated with the provision of USF supported services. Included in the Part 32 General and Administrative (“G&A”) expense accounts are job functions and related duties that are necessary for the successful and efficient operation of a rural, rate-of-return telecommunications company. The successful operation of a company requires leadership, vision and management skills that allow a company to operate in a business environment. Included in the Part 32 account for corporate operations are the salaries and benefits for the following personnel who are involved in performing important and necessary job functions and duties (some may perform more than one of these activities):

¹⁸ Refer to Section 254(e) of The Act
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- The Chief Executive Officer (CEO) or company general manager.
- The Board of Directors, or management assistants.
- The company's Chief Financial Officer (CFO) and/or controller.
- The accounting staff.
- The legal staff or outside legal consultants.
- The regulatory staff or regulatory consultants.
- The human resources personnel.

The company personnel noted above are responsible for the following duties.

The executive is considered as the “go-to” person that is responsible for the overall organization, its activities, and assumes responsibility for all operations of the company. Additionally, the executive and supporting personnel develop business plans and analyze the impact of such plans on the long-term and short-term impact on the company's financial well-being. These decisions may involve whether to construct plant or not to construct plant; determining the most efficient technology to implement; whether the work force should be expanded or reduced; and the appropriate amount of general support equipment necessary to operate the company and maintain the supported services.

The accounting and financial personnel are responsible for ensuring that the extensive reporting requirements within the regulated telecommunications industry are performed in an accurate and timely manner. On a monthly basis, the accounting department conducts all accounting activity, including cash management, end user billing, accounts receivable for all end user customers, and Carrier Access Billing Statements (CABS) billing for all of the company's interexchange carriers and wholesale customers. There is also NECA reporting, contract management, work order closings, accounts payable, payroll, benefit allocations, vehicle and other account clearings, general ledger entries and other accounting processes that are necessary

to be performed on a monthly basis. Most companies produce monthly financial statements and monitor the financial activity and/or compare actual results to the company's operating budget.

Payroll tax amounts are required at the end of each pay period and are accumulated for quarterly payroll tax reporting. Additional quarterly reporting requirements include corporate tax estimates, submitting principal and loan payments, filing required FCC forms, such as the quarterly Telecommunications Reporting Worksheet (499Q), quarterly line counts (Form 508), the semi-annual Local Competition and Broadband Reporting (Form 477) and other forms.

Annually, the accounting department personnel prepare data and assist with the financial audit conducted by external auditors. They also file annual tax returns, complete annual reports for the state Public Utilities Commission ("PUC"), complete annual Customer Proprietary Number Identification ("CPNI") compliance reports, file the required FCC forms, complete annual cost studies and related reports for NECA pooling, as well as the annual USF/USAC reporting requirements.

While some of the above items are unique to the telecommunications environment, all are required by law and are legitimate costs of doing business as a regulated utility. As such, these costs should be included in the recovery calculation process used by the FCC and state PUCs for legitimate business expenses.

On the human side, most companies desire personnel with college or specialized management degrees to fulfill the employment positions in management, accounting, legal and/or human resources. The FCC would limit a small rural company's ability to attract personnel with advance degrees, by limiting their corporate expenses or capping the amounts

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they can recover. Limiting or eliminating these expenses would put an immense strain on a company's ability to attract and keep qualified employees for a specialized industry. In fact, it could be counter-productive because many of the students in rural areas that go to urban colleges and universities would lose the opportunity that the telephone company would provide in offering a job that allows the individual to work in the rural area from which they came or a rural area that provides the benefits of living in a small close-knit community.

WGA analyzed the financial impact of the proposed phase out of corporate operations expenses from total USF support (HCLS, LSS and ICLS funds) for seven LECs who opted to participate in these comments and presents the reduction in USF support on Exhibit 1. For the seven LECs analyzed by WGA, the average estimated annual reduction in total USF support per line for the elimination of corporate operations expenses from total USF amounted to \$28.33 for the year 2012, \$82.85 for the year 2013, \$108.19 for the year 2014 and \$119.75 for the year 2015.

Any attempt to prohibit the recovery of legitimate corporate expense costs from USF support mechanisms will most certainly get challenged through legal proceedings because these costs are required for the provision of supported services and are necessary to preserve and advance universal service. As an alternative, extending the existing HCLS corporate expense cap to ICLS and LSS could maintain compliance with the Act while allowing the FCC to achieve some targeted reductions in USF expenditures.

7. Establish Benchmarks for Reimbursable Capital and Operating Expenses

The FCC's NPRM proposes to establish benchmarks for reimbursable capital and operating expenses for ROR companies by capping the amount of operating expenses ("OPEX") and capital expenses ("CAPEX") for universal service purposes.¹⁹ The FCC specifically proposes to use regression analyses to estimate appropriate levels of OPEX and CAPEX for each incumbent study area. Under this proposal, a carrier would be eligible for reimbursement from the HCLS and ICLS at or below the specified threshold. The FCC would need access to source data for each analysis and seeks comments on the availability of such data to the FCC. In particular, would the potential use of data from ROR carriers and/or the Rural Utilities Service ("RUS") be sufficiently representative. In addition, the FCC seeks comments on ways to solicit and incorporate input from the public.

WGA recognizes that the FCC may be required to implement fund caps in order to balance the goals of Section 254(b)(1) and 254(b)(3). Section 254(b)(1) states that USF mechanisms must be specific, predictable and sufficient to preserve and advance universal service. Section 254(b)(3) states that consumers in rural and high-cost areas should have access to telecommunications and information services that are reasonably comparable to those provided in urban areas at reasonably comparable rates. There are cost/benefit relationships that must be analyzed in determining amounts to be charged to the public for implementing USF programs mandated by the Act. The Commission has requested data to help them determine the cost of bringing advanced telecommunications and information services to rural and high-cost areas. The cost in excess of an affordable rate benchmark is targeted for support from USF mechanisms. The cost in excess of an affordable rate benchmark can then be spread between all

¹⁹ Refer to paragraphs 201 to 207 in the FCC's NPRM published March 2, 2011
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USF funding sources (e.g., interstate MOUs, interstate revenues and communications/data lines) to determine the equivalent cost per line or ratio of interstate revenue necessary to fund USF programs. A separate affordable rate benchmark can then be established for the funding of all USF programs which will serve as the cap for all USF support mechanisms. A similar procedure is being performed today within the HCLS program. This process would require minimal changes to existing support models and calculations and would target support to LECs that invest and reinvest in broadband infrastructure.

To obtain relevant cost data for analysis, the FCC recently requested company specific financial and operating data from NECA that includes investments, revenues and expenses of both an operating and non-operating/non-regulated nature.²⁰ WGA and our clients understand that although it might be prudent for the FCC to review and assess all financial data for the telephone operations of an ILEC to determine the proper amount of support necessary to sustain those operations in rural America, existing rules are currently in place to limit the cross subsidization of regulated and non-regulated services. WGA could not support any change in existing rules that would require the subsidization of regulated services by a company's non-regulated activities any more than the FCC would permit the subsidization of a LEC's non-regulated activities through its regulated services.

²⁰ See NECA E-mails and attachments regarding "FCC Request for Data from NECA" dated March 29, 2011: "FCC Data Request" to NECA Member Companies dated March 31, 2011: and "Data Submitted in Response to FCC Data Request", dated April 7, 2011.

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However, if the FCC deems it necessary to review the non-regulated operations of an ILEC to make an assessment of its support requirements, we encourage the FCC to seek data in a format or manner that is already in existence in order to reduce the regulatory burden and additional costs necessary if a rural ILEC will have to accumulate data in a format which is not part of their daily, monthly or annual financial reporting purposes. For example, the FCC requested companies to provide “originating and terminating minutes-of-use” by carrier and potentially by access element. This is data that exists in a company’s carrier access billing system (“CABS”) or other billing records but is not likely readily available for use by “carrier, element, or by originating and terminating MOUs”. Instead, RLECs use billing summaries to accumulate totals for the revenue items to be used in posting monthly entries, performing monthly NECA and/or state and Federal regulatory reporting. If the FCC anticipates that it will continue to request data at this granular level of information, then WGA recommends that the FCC establish rules and procedures so these requirements may be consistently applied in its daily accounting routines.

The FCC also seeks comments on whether additional allowances should be made for carriers that have existing loans or other commitments that would make immediate implementation of the caps unduly burdensome. Rate-of-return LECs should be allowed to recover the cost of their embedded networks and related expenses based on existing support mechanisms for the duration of the useful lives of their existing plant. Many ROR LECs invested in plant and operated their companies with the understanding that they would receive

recovery based on the high-cost rules that are, and were, in place at the time the expenditures were incurred. For the FCC to change those rules, before recovery is fully recognized, is a violation of one of the founding principles of USF that requires support to be “specific, predictable and sufficient to preserve and advance universal service”. The reform proposals currently being proposed by the Commission in this NPRM will certainly impact a LEC’s ability to repay its existing loans for infrastructure investments acquired using business case assumptions containing existing USF funding mechanisms.

WGA is not opposed to a transition to a CAF support program,²¹ but that transition should occur over a period of time that is targeted for each ROR LEC based on the length of time of their existing loans and/or plant remaining life schedules. WGA does not believe that companies that have recently made investments to modernize their plant or improve upon their broadband capabilities should now be penalized for making those investments by having their existing USF support redirected to other companies who have refused to make similar investments.

WGA provides Exhibit 4 for the seven LECs represented in these comments that provide remaining life information as it relates to the plant investments and associated facility loans that were implemented based on the rules at the time the investments were made. Two of the seven companies were recently awarded broadband stimulus grants and loans from RUS in conjunction

²¹ WGA envisions the CAF to be a surrogate support program for existing USF programs as support is targeted to broadband investments and services in existing rural service areas. The CAF should not be a replacement program for the purpose of redirecting existing support to service providers in unserved broadband areas.

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with the American Recovery and Reinvestment Act of 2009 (“ARRA”) to expand and enhance broadband services offered within their study areas. Two additional companies recently filed applications for broadband loans with RUS to expand and enhance broadband services offered within their study areas. Interestingly, RUS required each of the applicant’s broadband business cases to include fiber to the home (“FTTH”) in its proposed network infrastructure upgrade and revenue impacts from plant additions were to be determined under existing USF programs and funding mechanisms.

As indicated in Exhibit 4, the remaining lives of plant constructed under existing USF support programs and funding mechanisms for the companies represented in these comments average approximately 3 years for central office equipment accounts (with remaining undepreciated book value) and 10 years for cable and wire facility accounts (with remaining undepreciated book value). WGA believes these investments should continue to be funded under existing USF support mechanisms and the remaining life data should provide guidance to the FCC for transition periods to the new CAF designated for broadband.

8. *Streamline the Study Waiver Process and Revise the “Parent Trap Rule”*

WGA supports the proposals of the FCC to streamline the study area waiver process and to eliminate the “Parent Trap Rule”. It has been previously demonstrated that study area waivers can take years to get through the system and that these time frames can deter companies from exchange acquisitions that may bring broadband services to currently unserved areas. The Commission has proposed to streamline the process by automatically granting waiver requests sixty days after the comment cycle has ended if no further action is warranted by the

Commission. The Commission also proposed to modify its standards for reviewing waiver requests by focusing on the public interest benefits of the proposed waiver for the current one percent guideline. Public interest considerations should be the main standard for the waiver review process and may include factors such as additional services provided, lines served, cost per lines served and additional support generated from the waiver request.

Elimination of the “parent trap rule” will benefit consumers in areas that can be easily served through the study areas of adjoining carriers through edge build-outs. However, the Commission currently proposes a five-year period for expiration of the parent trap rule after adoption of a study area waiver request. This five-year expiration period is too long and will most certainly delay the provisioning of broadband and other supported services to these areas where costs may be prohibitive. Instead, the length of the expiration period should be a factor for review in the study area waiver process and should be based on the public interest benefits brought by the acquisition entity requesting the study area waiver. For example, if the acquisition entity can provide broadband services in a previously unserved area with minimal additional support requirements, the parent trap rule should be waived immediately as part of the study area waiver. The Commission should not pursue a “one size fits all” strategy regarding the expiration of the parent trap rule.

9. Transition Interstate Access Support (“IAS”) to CAF and Eliminate Identical Support Rule

a. Interstate Access Support

IAS is currently received by price-cap carriers and is targeted for density zones of greatest need within a study area whereas high-cost model support is targeted to particular wire

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centers within a study area. IAS was a component of the transitional Coalition for Affordable Local and Long Distance Services (“CALLS”) Access Reform Plan which has lasted long-past its intended five-year lifespan. The FCC proposes to transition IAS support to the CAF over a period of five years, *beginning in 2012*. Under its existing rules, the FCC does not believe that IAS is focused on broadband services nor are recipients required to use funding to deploy broadband infrastructure. As a result, it appears the FCC no longer believes that IAS is necessary to provide voice services at affordable and comparable rates but may be beneficial to effectively promote broadband deployment.²² Because IAS support is currently disbursed based on cost proxies to carriers under incentive regulation (e.g., it is not tied to actual expenditures), IAS receipts can be very financially rewarding absent a mandate to actually spend it on supported services. This is but one example of the inadequacies of incentive based regulation.

b. Identical Support Rule

The identical support rule provides USF funding to competitive ETCs (“CETCs”) for the provision of telecommunication services in high-cost areas based on the per line support received by incumbent LECs. CETCs are mostly comprised of CLECs and mobile service providers operating in high-cost rural areas. The identical support rule has been under attack in recent years because (1) the support is not cost based and (2) CETCs have not always directed the identical support funds to the areas for which it was intended. For example, identical support funds received by wireless service providers for the provision of services in rural areas have

²² Refer to ¶ 233 of the FCC’s NPRM published March 2, 2011
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often times been redirected to upgrade facilities in more competitive urban areas. Historically, there has been minimal oversight regarding the use of USF funds received by CETCs under the identical support rule. The FCC proposes to eliminate the existing identical support rule and seeks comments on two high-level approaches to accomplish this transition. The first approach is to direct, *over the next five years*, the amount from the identical support fund to the CAF for distribution through new market-driven funding mechanisms. The second approach is to redirect the fund to the CAF but allow mobile providers to demonstrate some level of continuing support under the current high-cost program as necessary.²³

If the FCC's definition of market-driven funding mechanisms refers to reverse auctions, WGA does not support the use of reverse auctions as a future mechanism for the distribution of USF or CAF funds. WGA would support an alternative approach to redirect these funds to the CAF and allow mobile providers the opportunity to receive continuing support based on their company specific or service area specific cost of providing service. WGA is aware of at least two wireless service providers that have previously filed requests with the FCC for cost based support under the Commission's existing rules so we know that this alternative option is possible.

²³ Refer to ¶ 242 of the FCC's NPRM published March 2, 2011
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B. The First Phase of the Connect America Fund

The FCC proposes rules for awarding, through auctions based on lowest bid amounts²⁴, targeted non-recurring funding to support the deployment of fixed or mobile broadband in areas of the country that lack even basic broadband today as determined by the National Broadband Map and/or the FCC's Form 477²⁵ data collection. The first phase of implementation would supplement, not replace, other high-cost support in its current form or as modified by this NPRM. The FCC envisions conducting an auction in 2012 and potentially again in 2014.²⁶

Any party applying for support in the first phase of the CAF must be a designated Eligible Telecommunications Carrier ("ETC") for an area that includes unserved area(s) and must hold any necessary authorization to provide voice service, if required by the FCC. Disbursements will be in three stages, with the final amount provided when 100 percent of the units are deemed served. No later than two months after providing service or two years after receiving support, parties will demonstrate broadband performances to and from the network of 4 Mbps downstream (actual) and 1 Mbps upstream (actual). Parties are subject to random compliance audits and other investigations.²⁷

²⁴ Refer to ¶ 284 of the FCC's NPRM published March 2, 2011

²⁵ Local Telephone Competition and Broadband Reporting form

²⁶ Refer to ¶ 261 of the FCC's NPRM published March 2, 2011

²⁷ Refer to Appendix A, Part 54 Subpart M, Competitive Bidding Process, of the NPRM

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The FCC also proposes to dedicate a defined amount of money to fund the first phase of the CAF with savings expected to be realized from existing high-cost programs. The new program would co-exist with other existing support mechanisms. Verizon Wireless and Sprint agreed to phase out high-cost support in earlier merger orders. The FCC proposes to phase out IAS and LSS beginning in 2012, as well as other reforms to the high-cost programs. These reforms could generate close to a billion dollars in savings over the next few years.²⁸

WGA is not opposed to the creation of a CAF and provides recommendations for the phase out of existing LSS support in other areas of these comments. Redirecting LSS support to the CAF causes economic consequences to existing USF beneficiaries that must be addressed by the Commission to protect the financial integrity of rural local exchange carriers.

In response to the FCC's proposal for funding Phase I of the CAF and awarding funds for the build-out of broadband infrastructure in unserved broadband areas, WGA provides the following comments and observations. In its response to the FCC's initial inquiries and request for comments concerning the FCC's National Broadband Plan and Connect America Fund proposals, WGA responded that it could support an open broadband application process for unserved areas in a manner similar to the process recently conducted for the award of broadband stimulus grants and loans under the ARRA.²⁹ Under the ARRA procedures, prospective service providers were given the opportunity to file applications for broadband stimulus grants and loans for the deployment of broadband networks and services in areas that were deemed "unserved" or

²⁸ Refer to ¶ 275 and ¶ 276 of the FCC's NPRM published March 2, 2011

²⁹ See comments of Warinner, Gesinger & Associates, LLC dated July 12, 2010 at Pg. 8 in response to the FCC's Notice of Inquiry and Notice of Proposed Rulemaking, WC Docket No. 10-90, GN Docket No. 9-51 and WC Docket No. 5-337, Released April 21, 2110.

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“underserved” and where economic business cases could not justify the implementation of broadband services. WGA does not support an auction process that targets winners based on the lowest bid because the applicant with the lowest bid may not necessarily be the applicant best suited to provide ongoing broadband services in an economic and efficient manner. Under the ARRA procedures, broadband service applications were judged on a number of factors including the applicant’s qualifications and experience dealing with broadband services, efficiency of network technology and bandwidth deployment capabilities, estimated project costs and project timelines, and overall financial viability of the company’s application. WGA recommends that the FCC consider adopting broadband application procedures similar to those addressed within the ARRA guidelines when selecting broadband service providers for unserved broadband areas under Phase I of the CAF if and when the CAF is implemented by the FCC.

The FCC also seeks comments on two distinct proposals to target support more directly to areas that are uneconomic to serve. First, the FCC would require rural carriers to disaggregate support within existing areas *beginning in 2012*. The second would allow the FCC to begin a process in the near term to establish new service areas that would be eligible for ongoing support under CAF in stage two of the reform.

1. Disaggregating Support – On or before 60 days from the effective date of the adoption of an order on this NPRM, all rural incumbent LECs and ROR carriers for which high-cost universal support is available that previously had not disaggregated their study area, must

select a disaggregation path.³⁰ The carrier may file a plan approved by the appropriate regulatory authority or self-certify to the appropriate regulatory authority a disaggregation plan of up to two cost zones per wire center.³¹

Disaggregation was initially implemented to accommodate the requirements of the identical support rules which allowed incumbent carriers to target explicit support to areas within a study area that cost more to serve, thus ensuring a competitive entrant receives the targeted support only if it serves the high-cost area.³² The identical support fund will be eliminated over the next five years and the amount from this fund will be redirected to the CAF.

The FCC's NPRM proposes to define unserved areas and use a competitive bidding process to award funding to the provider (or providers depending on the final determination of this issue) that will maximize the number of households passed by broadband networks in the designated geographic area while ensuring access to voice services.³³

The development of disaggregation paths for ROR carriers requires the use of sophisticated studies and can be administratively burdensome and costly for small rural LECs. Since the FCC proposes to eliminate the identical support rule and the FCC will determine the unserved broadband areas, WGA believes disaggregation studies may no longer be necessary or beneficial for the determination of support levels within service areas.

³⁰ Refer to Appendix A, § 54.315, Disaggregation and targeting of high-cost support

³¹ Refer to ¶ 379 of the FCC's NPRM published March 2, 2011

³² Refer to ¶ 242 of the FCC's NPRM published March 2, 2011

³³ Refer to ¶ 418 of the FCC's NPRM published March 2, 2011

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2. *Establish New Study Areas* – The FCC does not expect to disburse ongoing support under CAF for a number of years. The FCC seeks comments on whether it should encourage states to redraw existing study area boundaries to create more narrowly targeted service areas for purposes of the CAF. Additionally, the FCC seeks comments on whether they should require all current ETCs to reapply for ETC designation for the purpose of receiving funding in the future. This could provide ETCs an opportunity to determine if they wish to continue serving as an ETC. The FCC also seeks comments on whether the FCC should allow ETCs to modify their ETC designation to cover only a portion of the geographic area they serve.³⁴

It is somewhat apparent that the FCC is trying to drive support to smaller service areas for competitive reasons. Its proposals to disaggregate existing support and redraw existing study areas appear to be designed to force support down to a wire center level and then subject support to auctions at the wire center level pitting ILECs, CLECs and wireless service providers against one another in a winner take all land grab. On the surface, auctions appear to be a workable solution to reduce USF outlays in rural areas. Underneath, auctions are fraught with economic disincentives and quality of service concerns that will be discussed later in these comments.

C. Long-Term Vision for the Connect America Fund - Second Stage of CAF

In the second stage of the FCC's reform, all funding will be provided through CAF for

³⁴ Refer to paragraphs 384 to 388 of the FCC's NPRM published March 2, 2011
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IP-based networks providing high-quality voice service and broadband Internet access service. The FCC offers options to transition all remaining high-cost funding, e.g., high-cost loop support, interstate common line support and high-cost model support to the CAF.

Under one option, the FCC would hold a competitive, technology-neutral bidding mechanism (auction) to select the provider that would serve the area and assume all broadband and voice obligations. Under another option, the FCC would offer the current voice carrier of last resort (“COLR”) or other existing service provider the right of first refusal (“ROFR”) to serve as the broadband and voice provider for ongoing annual support based on some type of a cost model. If the provider refuses this offer, the FCC would award ongoing support through the competitive bidding process.

In the alternative, the FCC seeks comments on limiting the full transition to CAF to a subset of geographic areas, such as those served by price-cap companies, while continuing to provide support based on reasonable actual investment to smaller ROR carriers.

1. Competitive Bidding Everywhere – The FCC proposes to use a competitive bidding mechanism to award one provider per geographic area in all areas designated to receive CAF. The support will be designed to maximize the number of households passed by broadband networks while retaining voice service. Bidders would be in direct competition with bidders in every area in the nation where support is offered. Bids for voice only would compete against all other bids serving the same area. Bidding would be open to all types of providers, if they are ETCs, or will become ETCs, and can meet the COLR obligations in areas where they would be providing service. The FCC seeks comments on whether consideration should be given to the

provider that exceeds the minimum requirement (higher speed, latency, mobility, upgrade potential, serving Tribal lands). The FCC also seeks comments on defining areas that are aggregation of census blocks and the role of satellite providers.³⁵

The FCC seeks comments on whether they should implement the competitive bidding process on a phased-in basis, beginning with the price-cap service areas and should the FCC differentiate between the Bell Operating Companies (BOCs) and mid-size carriers. If this approach is adopted, would ROR service areas continue to receive support under current high-cost programs subject to proposed modifications while this approach is implemented in price-cap areas?³⁶ In the alternative, the FCC could limit full transition to the CAF to a subset of geographic areas, such as those served by price-cap companies, while continuing to provide ongoing support based on reasonable actual investment to smaller rate-of-return companies. Should the FCC take this approach, they seek comments on the following: (1) possible changes beyond those discussed in the previous section, including capping and shifting ICLS to an incentive regulation framework that would establish support amounts to generate an appropriate forward-looking return for an efficient carrier for the investments at issue; (2) implementing a more rigorous process to examine whether investment is used and useful, and (3) reexamine the current 11.25% interstate rate of return.³⁷

³⁵ Refer to paragraphs 418 to 430 of the FCC's NPRM published March 2, 2011

³⁶ Refer to ¶ 430 of the FCC's NPRM published March 2, 2011

³⁷ Refer to ¶ 401 of the FCC's NPRM published March 2, 2011

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WGA opposes the use of a bidding process (auctions) for the award of USF for the provision of supported services. Auctions are fraught with economic disincentives and quality of service concerns. For example, there will be a new layer of cost added to the process for conducting USF auctions that will undermine the USF savings expected from the service providers. We have seen no estimates of the cost/benefit relationship associated with the auction process proposed by the FCC. A cost/benefit analysis of the auction process would suggest that the longer the period between auctions, the greater the economic benefit derived from the auctions. Support under the FCC's proposals will be subject to the lowest bid and will undoubtedly be capped over a period of time to prevent fund growth in accordance with regulatory goals established for USF. As a result, there will be very limited funding available to upgrade rural broadband networks for technology advancements through time and quality of service will be degraded until new USF auctions and funding mechanisms are set for subsequent consideration.

Existing ILECs are currently wrestling with the issues of service reductions and stranded investments due to the threat of losing support revenues through reverse auctions. Carriers are limiting investments in new technology until the framework for future USF funding is determined by the Commission and the certainty of USF funding is known and/or predictable. These threats will continue to be revisited by the existing USF beneficiary every time a new auction is put into place by the FCC or USAC. Carriers will have to rely on shortened time periods for recovery of plant investment dollars which will exacerbate the FCC's goal to restrict the future growth in the fund.

There will be a “Catch 22” scenario created by the Commission from the implementation of reverse auctions. If the auctions are scheduled too closely, the cost of the auctions will undermine the benefits to be realized from the auctions. Lenders will be hesitant to loan money to service providers for network investments unless the loan repayment period coincides with the time period designated for the guaranteed receipt of USF support (time period between designated auctions). This will require service providers to recover the cost of their plant investments over the same time frame as the loan repayment period (time between designated auctions). Lenders will be required to target their loans to USF receipts because USF is and will continue to be a significant source of revenues to rural service providers.³⁸ If the time between designated auctions is too long, rural service providers will be constrained from making new investments because their USF revenues will be locked in for an extended period of time based on a bare bones minimum bid in an effort to win USF funding. Investments in new technologies will be averted and service degradation will naturally occur due to limited and potentially inadequate funding over time. It is very difficult to predict technology advancements or even a company’s operating requirements over a period longer than three to five years.

If auctions were scheduled every five years, the cost of auctions coupled with the difficulty in obtaining debt financing for infrastructure enhancements and the need to recover investments in infrastructure over a five-year period would eliminate any benefits reasonably expected from the auction. If auctions were scheduled more than five years apart, a bid for extended USF would be nothing better than a best guess based on technology in place at the time

³⁸ See, Comments of CoBank, WC Docket No. 05-337 (filed Apr. 17, 2008) at 4.
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of the auction. There will be little margin for error in future periods resulting in suspended investments and service degradation.

There are other concerns with reverse auctions that are discussed in the comments provided by the Rural Associations, VI. THE RLEC PLAN AVOIDS PITFALLS ASSOCIATED WITH USING REVERSE AUCTIONS AND/OR FORWARD-LOOKING COST MODELS AS A REPLACEMENT FOR AN RLEC SUPPORT MECHANISM BASED ON ACTUAL COSTS, to which WGA concurs.³⁹ Any way you look at reverse auctions, it will result in a lose/lose situation for rural service providers and their consumers.

2. Carrier of Last Resort and Right of First Refusal - The FCC seeks comments on an approach in each service area designated to receive CAF, the FCC would offer the current COLR for voice services support through a Right of First Refusal (“ROFR”) to provide both voice and broadband services to customers in the area for a specified amount of ongoing support. If the current COLR accepts the ROFR, they would commit to deploying the network using any technology, consistent with the coverage requirements.⁴⁰ If the COLR does not accept the ROFR, the service area would be open for competitive bidding.

³⁹ See, Comments of the National Carrier Association, Inc.; National Telecommunications Cooperative Association; Organization for the Promotion and Advancement of Small Telecommunications Companies; Western Telecommunications Alliance; Eastern Rural Telecom Association; and the Rural Alliance (collectively, the “Rural Associations”), Submitted April 18, 2011, *In the Matter of Connect America Fund*, WC Docket No 10-90; *A National Broadband Plan for Our Future*, GN Docket No. 09-51; *Establishing Just and Reasonable Rates for Local Exchange Carriers*, WC Docket No. 07-135; *High-Cost Universal Service Support*, WC Docket No. 05-337; *Developing a Unified Intercarrier Compensation Regime*, CC Docket No. 01-92, at Pg. 75.

⁴⁰ Refer to ¶ 431 of the FCC’s NPRM published March 2, 2011

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WGA believes that establishing the support mechanisms for COLR and/or provider of last resort (“POLR”) obligations should be one of the main priorities of the FCC in this proceeding. If no carrier is designated as a COLR, then the COLR support mechanisms should extend to any existing ETC service provider that serves more than 50% of the loops in the area designated for support as long as the ETC service provider is willing to provide service to any customer in the area designated for support. COLR/POLR obligations have not and should not be based on “market driven forces” because high cost customers would not be served today if it were not for the economic benefits associated with COLR obligations. If local entrepreneurs had not realized the consumers need for services, applied to the appropriate regulatory authority, and began a telecommunications company, most rural customers would not have state-of-the-art services today because the incumbent LEC, the BOC for example, had elected not to provide service for various economic reasons.

Many, if not all, of WGA’s clients started in what could have been called “market failure areas” of the past. The areas were small rural communities in outlying areas where the BOCS and other telecommunications service providers chose not to serve. Today, most of these areas still do not have the population density to sustain a local telephone company without some level of USF support. WGA believes that COLR/POLR responsibilities should be well defined and that fulfilling these obligations should be one of the conditions for receiving USF support.

3. *Use of a Cost Model* – The FCC would determine the amount of CAF support to be offered to the current COLR using a cost model “developed in an open, deliberative, and transparent process with ample opportunity for interested parties to participate and verify model

results”.⁴¹ The FCC seeks comments on using a model that would estimate the forward-looking economic costs of providing broadband and voice service over wireline or using the lowest-cost technology capable of providing the minimum level of voice and broadband service in each area. If the model determined wireless technology would serve an area in a more cost-effective manner, the COLR could accept the offer and find a wireless partner for at least some of its service area.

WGA opposes the use of “cost models” for the determination of USF distributions to service providers in rural areas. The Commission requested comments concerning the use of cost models for determining USF support in its previous NOI and NPRM regarding the *Connect America Fund*.⁴² In response to the Commission’s previous request for comments, the Joint Comments of the Rural Association Groups⁴³ stated that cost models (1) are generally not capable of determining “specific, predictable and sufficient” USF support for rural areas; (2) are not capable of measuring the support needs for RLEC service territories where the costs of providing service can vary considerably based on each areas unique challenges; and (3) are likely to produce funding levels for small rural service territories that significantly undercompensate or overcompensate service providers based on particular circumstances, leading to significant service dislocations.⁴⁴

⁴¹ Refer to ¶ 432 in the FCC’s NPRM published March 2, 2011

⁴² See, *Connect America Fund*, WC Docket No. 10-90, *A National Broadband Plan for our Future*, GN Docket No. 09-51, *High Cost Universal Service Support*, WC Docket No. 05-337, *Notice of Inquiry and Notice of Proposed Rulemaking*, 25 FCC Rcd 6657 (2010) (NOI and NPRM) at ¶¶ 17,32.

⁴³ The Rural Association Group that sponsored joint comments in the previous NOI and NPRM regarding the Connect America Fund was comprised of the National Exchange Carrier Association, Inc., National Telecommunications Cooperative Association, Organization for the Promotion and Advancement of Small Telephone Companies, Western Telecommunications Alliance, the Rural Alliance and Concurring Associations.

⁴⁴ See, *Joint Comments of the National Exchange Carrier Association, Inc., National Telecommunications Cooperative Association, Organization for the Promotion and Advancement of Small Telephone Companies*, Warinner, Gesinger & Associates, LLC Comments CC Docket Nos. 01-92, 96-45, WC Docket Nos. 10-90, 07-135, 05,337, 03-109, GN Docket No. 09-51, CC Docket Nos. 01-92, 96-45 April 18, 2011

Moreover, the review of the Commission's proposed Broadband Assessment Model ("BAM") conducted by the Rural Association Group found that the BAM (1) failed to meet its three basic design objectives; (2) relied substantially on inaccurate data that is unrepresentative of areas served by RLECs, and (3) uses available data incorrectly, in ways that can be expected to substantially bias estimates, or to produce estimates that do not correlate with actual costs or revenues.⁴⁵ The Rural Association Group found many significant shortcomings and errors in its review of the BAM and noted these problems in Appendix A of its filed comments. In all, there were approximately 24 findings of improper use of methods and assumptions, omission of data, and improper claims associated with baseline model flaws, cost to serve model flaws, demand and revenue model flaws and financial assessment model flaws. In its conclusion, the Rural Association Group stated that:⁴⁶

"The various data and model flaws identified above with respect to the BAM's four main modules suggested strongly that the Model does not provide reliable estimates of costs for expanding broadband services in areas served by RLECs. Nor does the model reliably estimate revenues RLECs could be expected to obtain from providing broadband services. Furthermore, the BAM cannot be adapted or enhanced to perform these functions effectively without imposing unacceptably high administrative costs on providers. Therefore, the model cannot rationally be used to determine broadband support payments for areas served by RLECs."

Cost models can be dangerous because they can be manipulated to achieve desired results based on model inputs. The analysis of the BAM showed signs of both data manipulation to achieve a desired result and omission of data that did not achieve a desired result. There are

Western Telecommunications Alliance, the Rural Alliance and Concurring Associations, In the Matter of Connect America Fund, WC Docket No. 10-90, A National Broadband Plan for our Future, GN Docket No. 09-51, High Cost Universal Service Support, WC Docket No. 05-337, Submitted July 12, 2010, at Pgs. 52-59.

⁴⁵ *Id.*, Appendix A, *The FCC's Broadband Assessment Model, Rural Association Staff Analysis*, at ii.

⁴⁶ *Id.*, Appendix A, *The FCC's Broadband Assessment Model, Rural Association Staff Analysis*, at Pg. 29.

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optional methods of determining fair and reasonable costs of providing services in RLEC areas that don't require the use of unreliable and unproven cost models. The Rural Associations have proposed a five-step process to reform rules for intercarrier compensation ("ICC") and rules for the calculation and distribution of USF/CAF that uses more reliable methods than the Commission's proposed cost model.⁴⁷

4. Transition to CAF – The FCC seeks comments on how support under existing programs would be transitioned to the CAF under the possible scenarios depending upon the ROFR options. First, if a COLR currently receiving support accepts a ROFR, could the FCC presume that the amount is sufficient and no transition is necessary? Similarly, if a COLR currently receiving support refuses the ROFR and subsequently wins an auction, could the FCC presume the bid reflects sufficient support and no transition is necessary? Lastly, if a COLR currently receiving support refuses the ROFR and subsequently does not win the auction, a transition may be appropriate because there may be a period of time before the new provider is able to build-out and serve the area⁴⁸.

The transition to CAF is reflected in the five-step process outlined in the comments presented by the Joint Associations in response to the NPRM. The Joint Association's five-step process does not envision using an auction mechanism to determine winners and losers of USF.

⁴⁷ See, Comments of the National Carrier Association, Inc.; National Telecommunications Cooperative Association; Organization for the Promotion and Advancement of Small Telecommunications Companies; Western Telecommunications Alliance; Eastern Rural Telecom Association; and the Rural Alliance (collectively, the "Rural Associations"), Submitted April 18, 2011, *In the Matter of Connect America Fund*, WC Docket No. 10-90; *A National Broadband Plan for Our Future*, GN Docket No. 09-51; *Establishing Just and Reasonable Rates for Local Exchange Carriers*, WC Docket No. 07-135; *High-Cost Universal Service Support*, WC Docket No. 05-337; *Developing a Unified Intercarrier Compensation Regime*, CC Docket No. 01-92, Submitted April 18, 2011, at Pg. 7, Overview of Reform Steps Under the RLEC Plan.

⁴⁸ Refer to ¶ 446 of the FCC's NPRM published March 2, 2011

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WGA supports the comments of the Joint Associations regarding the five-step process for reform of ICC and USF and therefore believes that responses to the Commission's questions regarding auctions are not warranted at the present time.

5. Continued Rate-of-Return Reform for Certain Areas

The current universal support for ROR carriers effectively averages costs across a geographic area and there is no requirement that support should be targeted to specific areas within the study area. If the FCC finds that the comprehensive reforms to current USF support "improved incentives for investment by small rural companies, it could determine that support remain on reasonable actual investment rather than a cost model or auction".⁴⁹

Previously, the FCC determined that if support is to be based on costs, it should be based on forward-looking economic, not embedded costs. If the FCC decides it should take a different approach to implement CAF in different geographic areas, they could determine that only price cap carriers would receive support through ROFR and competitive bidding. The FCC would provide ROR territories ongoing support based on reasonable actual investment.

The FCC seeks comments on possible changes to the current ROR system beyond those discussed above, including capping and shifting ICLS to an incentive regulation framework.

WGA does not support the use of an incentive regulation framework for the calculation and distribution of USF/CAF to rural service providers. Capping of support can be used in limited circumstances to slow the growth of ICLS support requirements in a manner similar to the cap that is imposed on the HCLS fund to slow the growth in that fund. Support could be

targeted for high cost areas using benchmarks to set the upper and lower limits similar to the benchmarks contained in the HCLS algorithm. As the cost per line exceeds the upper limit, support begins to ratchet down thereby providing incentives to minimize costs for maximum economic benefit to the carrier and the consumer. However, a waiver process should be made available to address the recovery of costs in areas designated as “extremely high cost areas” due to geographic issues or technology requirements thereby avoiding the “one size fits all” dilemma which may trigger compliance issues with Sections 254(b)(1) and 254(b)(3) of the Act.

6. *Supported Providers* – the FCC seeks comments on the number of supported providers. The National Broadband Plan recommended there should be at most, one provider in a given high-cost area. Some believe the FCC’s long-term goal should be to ensure comparable service for both fixed and mobile services.⁵⁰ The FCC seeks comments on funding one fixed and one mobile network under the CAF.

WGA believes that fixed (wireline) and mobile (wireless) networks are complimentary and that one provider of each type of service should be eligible for support. Maintaining separate support funding for one wireline and wireless network guarantees redundancy and will help to alleviate traffic congestion on each of the networks. A mobility fund could be operated

⁴⁹ Refer to ¶ 448 of the FCC’s NPRM published March 2, 2011

⁵⁰ Refer to ¶ 402 and ¶ 403 in the FCC’s NPRM published March 2, 2011

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separately from the fixed/wireline support mechanisms. However, any carrier receiving support, current USF or future CAF, should be required to provide supporting cost and demand data to the FCC so the FCC can compute cost based support requirements, monitor costs and determine that the funds are used as intended by the Act.

7. Appropriate Funding in an Area Where the Provider does not Receive USF

The FCC seeks comments on whether any funding is required in an area that is served today with high-quality voice and broadband services by an unsubsidized provider. If the FCC decides that long-term funding will be based upon census blocks, then the FCC seeks comments on how they should establish that an area is served by an unsubsidized provider.⁵¹

WGA believes that support should be made available only to service providers that have attained ETC status with the state commission having regulatory authority over its service area. If unsubsidized service providers attain ETC status and qualify for support in the areas being served, then these service providers should be eligible for the receipt of USF support.

If future support is to be provided at the census block level, the FCC can look to the incumbent LEC to determine whether support is being provided and whether the incumbent LEC has previously implemented a disaggregation path for USF support distributions that will enable them to determine support levels at the census block level. It may require mapping but the incumbent LECs should be able to assist with that determination.

⁵¹ Refer to ¶ 409 of the FCC's NPRM published March 2, 2011
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8. Address Situations Where no Carrier Wishes to Serve

The FCC seeks comments on how to address situations where no entity wishes to serve. Under §214(e)(3), the FCC can determine which common carrier or carriers are best able to provide service and order the carrier(s) to provide such service.⁵²

There are generally entities that are willing to serve any unserved area within the country as long as there are ample revenues available to recover its operating costs and earn a return on its investment. These entities may require study area waivers to include these unserved areas in existing study areas and may require additional support to serve these unserved study areas. If there are areas that no entity wishes to serve, then the incentives contained in the USF programs are probably not working very well.

III. CONCLUSION

WGA opposes many of the reforms contained in the FCC's NPRM blueprint for transitioning to a Connect America Fund in its National Broadband Plan that are proposed for rural study areas and service providers. Replacing proven USF distribution mechanisms with unproven cost models seems to place the industry on a road to disaster as these cost models are difficult to update, subject to manipulation and can be used to intentionally or unintentionally move support between classes of beneficiaries without appropriate oversight. WGA opposes reverse auctions to determine winners of USF support funding because auctions are cost

⁵² Refer to ¶ 410 of the FCC's NPRM published March 2, 2011
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prohibitive, will likely accelerate the recovery of broadband investments and inherently contain economic disincentives to invest in new technologies. WGA opposes the elimination of corporate expenses from recovery through support mechanisms because corporate expenses are an essential component of the cost of providing supported services and are necessary to preserve and advance universal service in compliance with Section 254 of the Act.

WGA supports the five-step RLEC Plan presented in the Comments of the Joint Associations for the reform of intercarrier compensation, USF support mechanisms and transition to a RLEC specific CAF program. The RLEC Plan modernizes and reforms the USF for the longer term in a manner that satisfies the Commission's USF goals in this proceeding, serves the Commission's accountability goal by recognizing the uniquely important role RLECs play as "Carriers of Last Resort" in rural areas and avoids pitfalls associated with forward-looking cost models as replacements for RLEC support mechanisms based on actual costs.⁵³

Furthermore, WGA recognizes the possible use of caps to limit future USF growth and to target USF support to carriers that actually invest and reinvest capital in broadband capable networks. WGA urges the Commission to adopt the recommendations within the RLEC Plan so

⁵³ See, Comments of the National Carrier Association, Inc.; National Telecommunications Cooperative Association; Organization for the Promotion and Advancement of Small Telecommunications Companies; Western Telecommunications Alliance; Eastern Rural Telecom Association; and the Rural Alliance (collectively, the "Rural Associations"), Submitted April 18, 2011, *In the Matter of Connect America Fund*, WC Docket No 10-90; *A National Broadband Plan for Our Future*, GN Docket No. 09-51; *Establishing Just and Reasonable Rates for Local Exchange Carriers*, WC Docket No. 07-135; *High-Cost Universal Service Support*, WC Docket No. 05-337; *Developing a Unified Intercarrier Compensation Regime*, CC Docket No. 01-92, at Pg. 61, THE RLEC PLAN MODERNIZES AND REFORMS THE USF FOR THE LONGER TERM IN A MANNER THAT SATISFIES THE COMMISSION'S PRINCIPLES IN THIS PROCEEDING, Pg. 69, THE RLEC PLAN SERVES THE COMMISSION'S "ACCOUNTABILITY" PRINCIPLE BY RECOGNIZING THE UNIQUELY IMPORTANT ROLE RLECS PLAY AS "CARRIERS OF LAST RESORT" IN RURAL AREAS, and Pg. 75, THE RLEC PLAN AVOIDS PITFALLS ASSOCIATED WITH USING REVERSE AUCTIONS AND/OR FORWARD-LOOKING COST MODELS AS A REPLACEMENT FOR AN RLEC SUPPORT MECHANISM BASED ON ACTUAL COSTS.

that carriers can chart their paths for broadband investments with an understanding of the level of support that can be expected from USF to help pay for these investments over their useful lives.

April 18, 2011

Respectfully Submitted,

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**WGA Composite of Seven Rural ILECS
Estimated Impacts of FCC 11-13 NPRM**

Company	2009	2010	2011	2012	2013	2014	2015
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Existing USF Support

Total Companies

LSS	\$ 3,566,875	\$ 2,561,272	\$ 2,004,182	\$ 1,771,606	\$ 1,605,341	\$ 1,537,808	\$ 1,439,520
ICLS	7,075,987	7,655,599	7,547,355	8,088,413	8,907,483	9,613,230	10,177,733
HCL	6,739,217	7,814,686	6,078,419	6,905,228	6,546,357	7,182,604	8,391,730
SNA	567,684	591,936	742,296	229,500	168,840	141,408	141,408
Total	17,949,763	18,623,493	16,372,252	16,994,747	17,228,021	18,475,050	20,150,391
Category 1.3 Loops	40,754	39,807	38,793	38,018	37,241	36,483	35,796
Current Annual Support per Loop	\$ 440.44	\$ 467.84	\$ 422.04	\$ 447.02	\$ 462.61	\$ 506.40	\$ 562.92
Monthly Support per Loop	\$ 36.70	\$ 38.99	\$ 35.17	\$ 37.25	\$ 38.55	\$ 42.20	\$ 46.91

Support Impact From Phase out of Corp. Op Expense

Total Companies

LSS	\$ (137,972)	\$ (255,205)	\$ (367,320)	\$ (360,313)
ICLS	(798,698)	(1,645,866)	(2,483,488)	(2,510,838)
HCL	(140,281)	(1,184,330)	(1,096,160)	(1,415,538)
Total	\$ (1,076,951)	\$ (3,085,401)	\$ (3,946,969)	\$ (4,286,690)
Category 1.3 Loops	38,018	37,241	36,483	35,796
Current Annual Support per Loop	\$ (28.33)	\$ (82.85)	\$ (108.19)	\$ (119.75)
Monthly Support per Loop	\$ (2.36)	\$ (6.90)	\$ (9.02)	\$ (9.98)

Support Impact From Phase out of Remainder of LSS

Total Companies

LSS	\$ (539,099)	\$ (904,591)	\$ (1,170,488)	\$ (1,079,207)
Category 1.3 Loops	38,018	37,241	36,483	35,796
Current Annual Support per Loop	\$ (14.18)	\$ (24.29)	\$ (32.08)	\$ (30.15)
Monthly Support per Loop	\$ (1.18)	\$ (2.02)	\$ (2.67)	\$ (2.51)

Support Impact From Reduced Benchmark % for HCLS

Total Companies

HCL	\$ (958,470)	\$ (911,340)	\$ (1,000,674)	\$ (1,105,494)
Category 1.3 Loops	38,018	37,241	36,483	35,796
Current Annual Support per Loop	\$ (25.21)	\$ (24.47)	\$ (27.43)	\$ (30.88)
Monthly Support per Loop	\$ (2.10)	\$ (2.04)	\$ (2.29)	\$ (2.57)

Support Impact From Phase out of SNA

Total Companies

SNA	\$ (57,375)	\$ (84,420)	\$ (106,056)	\$ (141,408)
Category 1.3 Loops	38,018	37,241	36,483	35,796
Current Annual Support per Loop	\$ (1.51)	\$ (2.27)	\$ (2.91)	\$ (3.95)
Monthly Support per Loop	\$ (0.13)	\$ (0.19)	\$ (0.24)	\$ (0.33)

Revised Support based on Phase out of Corp. Op Exp., Reduced % for HCL and Phase out of LSS

Total Companies

LSS	\$ 3,566,875	\$ 2,561,272	\$ 2,004,182	\$ 1,094,535	\$ 445,545	\$ -	\$ -
ICLS	7,075,987	7,655,599	7,547,355	7,289,715	7,261,617	7,129,742	7,666,895
HCL	6,739,217	7,814,686	6,078,419	5,806,478	4,450,687	5,085,769	5,870,698
SNA	567,684	591,936	742,296	172,125	84,420	35,352	-
Total	\$ 17,949,763	\$ 18,623,493	\$ 16,372,252	\$ 14,362,853	\$ 12,242,269	\$ 12,250,864	\$ 13,537,593
Category 1.3 Loops	40,754	39,807	38,793	38,018	37,241	36,483	35,796
Support per Loop after NPRM	\$ 440.44	\$ 467.84	\$ 422.04	\$ 377.79	\$ 328.73	\$ 335.80	\$ 378.19
Monthly Support per Loop	\$ 36.70	\$ 38.99	\$ 35.17	\$ 31.48	\$ 27.39	\$ 27.98	\$ 31.52

**WGA Composite of Seven Rural ILECS
Estimated Impacts of FCC 11-13 NPRM**

Company	2009	2010	2011	2012	2013	2014	2015
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Impact of Support Changes

Total Companies

LSS	\$	-	\$	-	\$	-	\$	(677,071)	\$	(1,159,796)	\$	(1,537,808)	\$	(1,439,520)
ICLS		-		-		-		(798,698)		(1,645,866)		(2,483,488)		(2,510,838)
HCL		-		-		-		(1,098,750)		(2,095,671)		(2,096,835)		(2,521,032)
SNA		-		-		-		(57,375)		(84,420)		(106,056)		(141,408)
Total	\$	-	\$	-	\$	-	\$	(2,631,894)	\$	(4,985,753)	\$	(6,224,187)	\$	(6,612,798)

Impact of Support Changes Per USF Loop

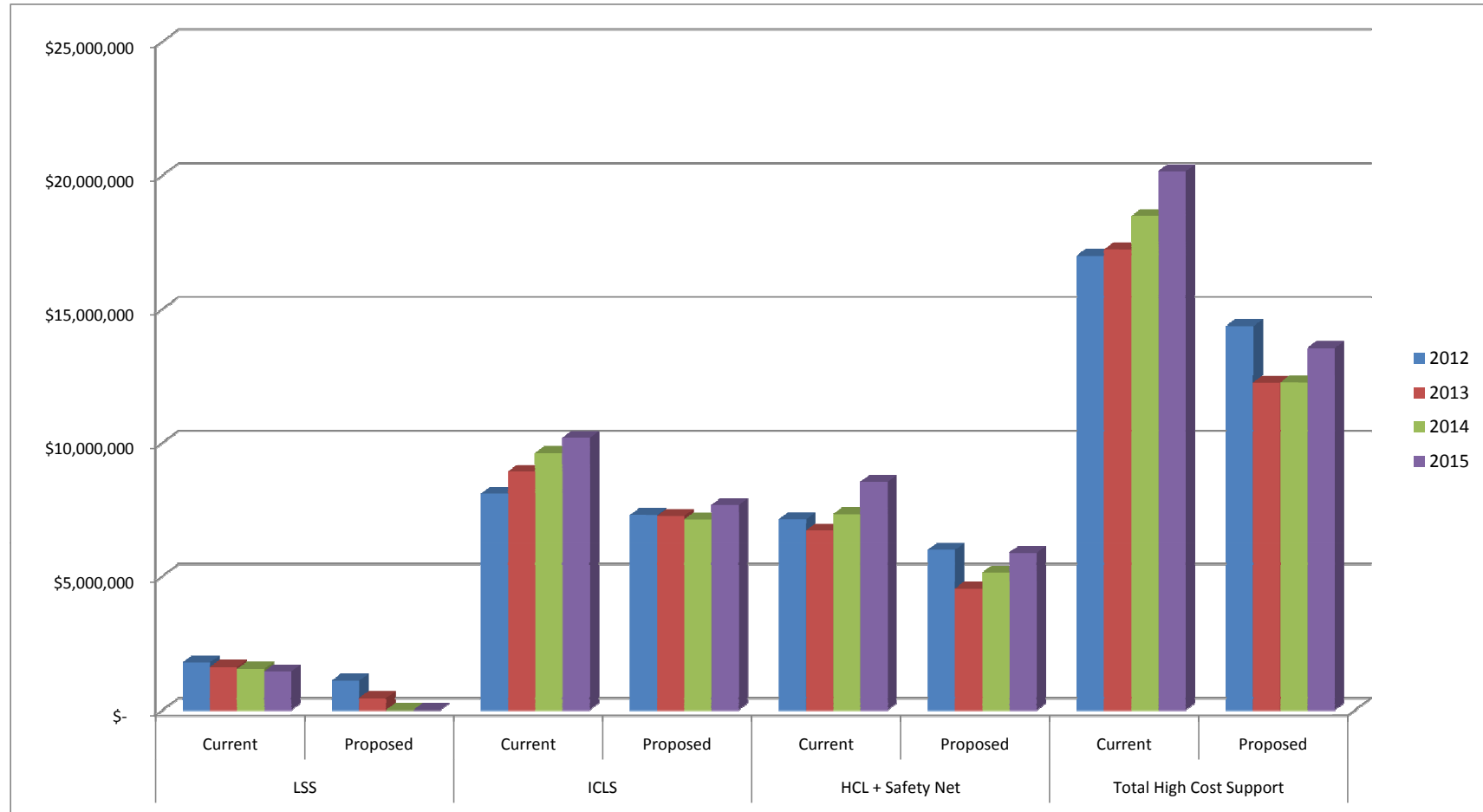
Total Companies

LSS					\$	(17.81)	\$	(31.14)	\$	(42.15)	\$	(40.21)
ICLS						(21.01)		(44.20)		(68.07)		(70.14)
HCL						(28.90)		(56.27)		(57.47)		(70.43)
SNA						(1.51)		(2.27)		(2.91)		(3.95)
Total					\$	(69.23)	\$	(133.88)	\$	(170.61)	\$	(184.74)
Annual Impact per Loop					\$	(69.23)	\$	(133.88)	\$	(170.61)	\$	(184.74)
Monthly Impact per Loop					\$	(5.77)	\$	(11.16)	\$	(14.22)	\$	(15.39)

Average Local Rate

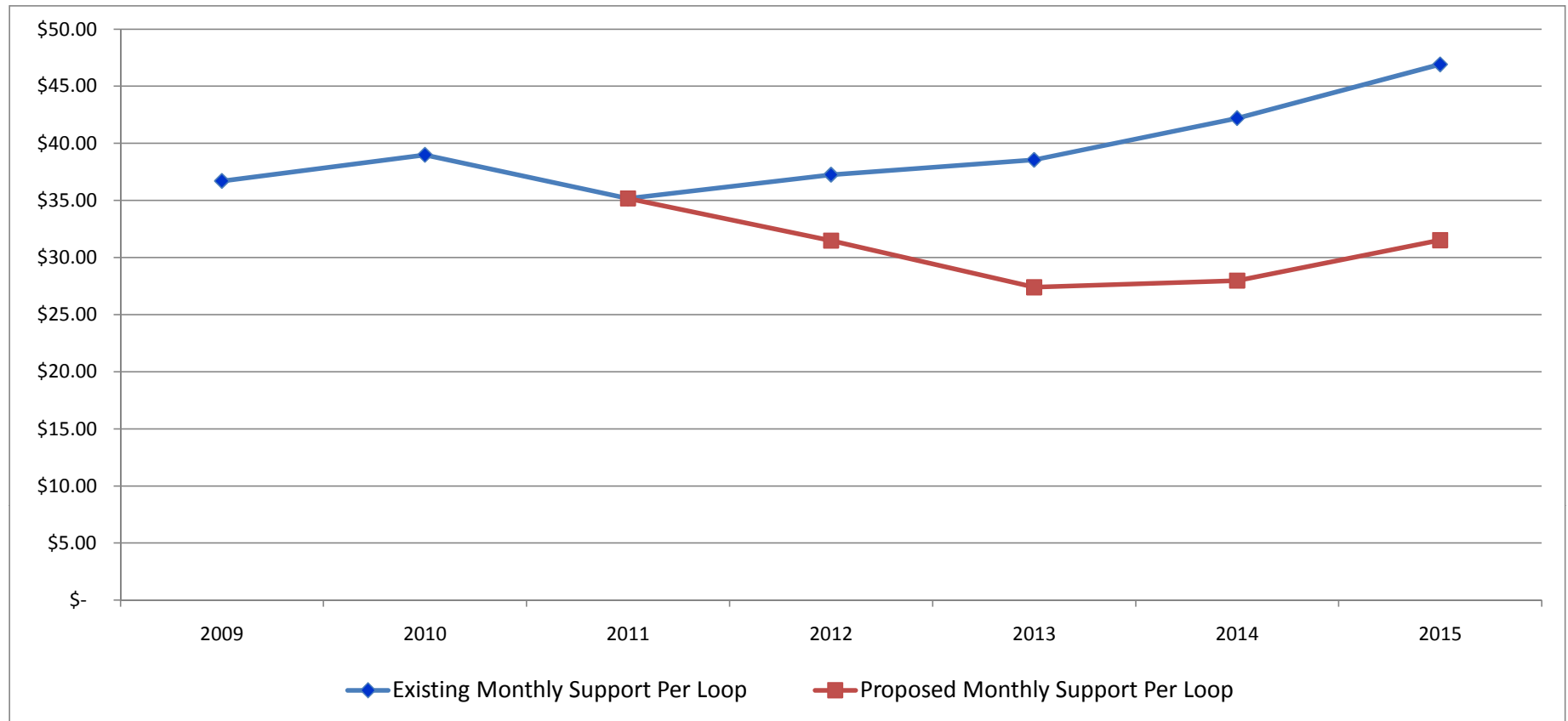
Average Local Rate without Additional Charges from USF Proposals	\$	16.24	\$	16.35	\$	16.36	\$	16.48
Potential Local Rate with Additional Charges from USF Proposals	\$	22.01	\$	27.51	\$	30.58	\$	31.87

WGA Composite of Seven Rural ILECS
Impact Of Proposed FCC Changes
To Annual USF Support by Program



	LSS		ICLS		HCL + Safety Net		Total High Cost Support		Difference	Per Ln Per Mo.
	Current	Proposed	Current	Proposed	Current	Proposed	Current	Proposed		
2012	\$ 1,771,606	\$ 1,094,535	\$ 8,088,413	\$ 7,289,715	\$ 7,134,728	\$ 5,978,603	\$ 16,994,747	\$ 14,362,853	\$ (2,631,894)	\$ (5.77)
2013	\$ 1,605,341	\$ 445,545	\$ 8,907,483	\$ 7,261,617	\$ 6,715,197	\$ 4,535,107	\$ 17,228,021	\$ 12,242,269	\$ (4,985,753)	\$ (11.16)
2014	\$ 1,537,808	\$ -	\$ 9,613,230	\$ 7,129,742	\$ 7,324,012	\$ 5,121,121	\$ 18,475,050	\$ 12,250,864	\$ (6,224,187)	\$ (14.22)
2015	\$ 1,439,520	\$ -	\$ 10,177,733	\$ 7,666,895	\$ 8,533,138	\$ 5,870,698	\$ 20,150,391	\$ 13,537,593	\$ (6,612,798)	\$ (15.39)

WGA Composite of Seven Rural ILECS
Impact of Proposed FCC Changes
To Monthly USF Support Per Loop



	2009	2010	2011	2012	2013	2014	2015
Existing Monthly Support Per Loop	\$ 36.70	\$ 38.99	\$ 35.17	\$ 37.25	\$ 38.55	\$ 42.20	\$ 46.91
Proposed Monthly Support Per Loop	\$ -	\$ -	\$ 35.17	\$ 31.48	\$ 27.39	\$ 27.98	\$ 31.52
Impact of Proposed Changes Per Loop Per Month	\$ (36.70)	\$ (38.99)	\$ -	\$ (5.77)	\$ (11.16)	\$ (14.22)	\$ (15.39)

WGA Comments

WC Docket 10-90, GN Docket 09-51, WC Docket 07-135, WC Docket 05-337, CC Docket 01-92

April 18, 2011

**WGA Composite of Seven Rural ILECs
Plant Remaining Life Schedule**

Description	Plant Balance	Accumulated Depreciation	Net Book Value	Depreciation Rate	Reserve Ratio	Average Useful Life	Average Life Used	Remaining Life
	(a)	(b)	(c = a + b)	(d)	(e = b / a)	(f = 1.00 / d)	(g = e * f)	(h = f - g)

Summary - All Companies Expense with remaining balances in the COE and CWF Accounts

COE with remaining balance to Depreciate	\$	35,302,834	\$	(24,784,479)	\$	10,518,354	10.23%	70.21%	9.78	6.86	2.91
CWF with remaining balance to Depreciate	\$	148,634,084	\$	(73,816,971)	\$	74,817,114	4.96%	49.66%	20.15	10.01	10.14
Total COE	\$	74,756,828	\$	(64,264,823)	\$	10,492,006	10.23%	85.97%	9.78	8.40	1.37
Total CWF	\$	160,245,054	\$	(85,400,661)	\$	74,844,393	4.96%	53.29%	20.15	10.74	9.41